



The Economic Outlook

Focus on Newport Beach

January 2017

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The November Surprise!

The Perils of Political Forecasting

 **FiveThirtyEight**

Nate Silver

8 am, Tuesday November 8

BEACON ECONOMICS Analysis. Answers.

Who will win the presidency?

Chance of winning

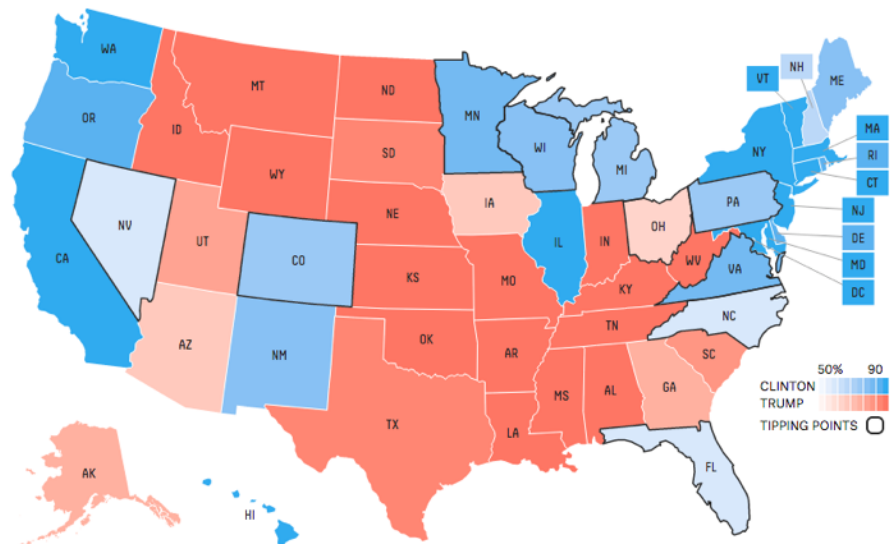


Hillary Clinton

71.4%

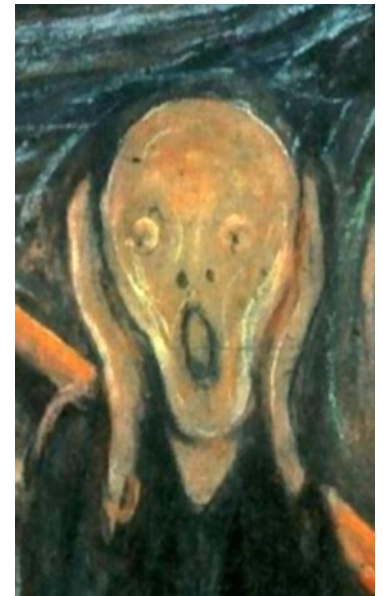
Donald Trump

28.6%



Anger of the Electorate

- American families; no raise in 15 years
- The crushing burden of the Affordable Care Act
- Secular stagnation / declining productivity
- Excessive taxes and regulations
- US manufacturing output decimated by trade
- Federal debt levels out of control
- Crime on the rise, inner cities in decline
- Undocumented migrants stealing US jobs
- Income inequality at record high levels
- The Fed holding rates “dangerously” low
- Technology-real estate-bond-stock-inflationary bubble brewing



Word of the Day

Miserabilism

The philosophy of pessimism – or –
Trying really hard to convince everyone that
things are really bad when, in reality, they aren't.



The Victory of Miserabilism

Things aren't that bad

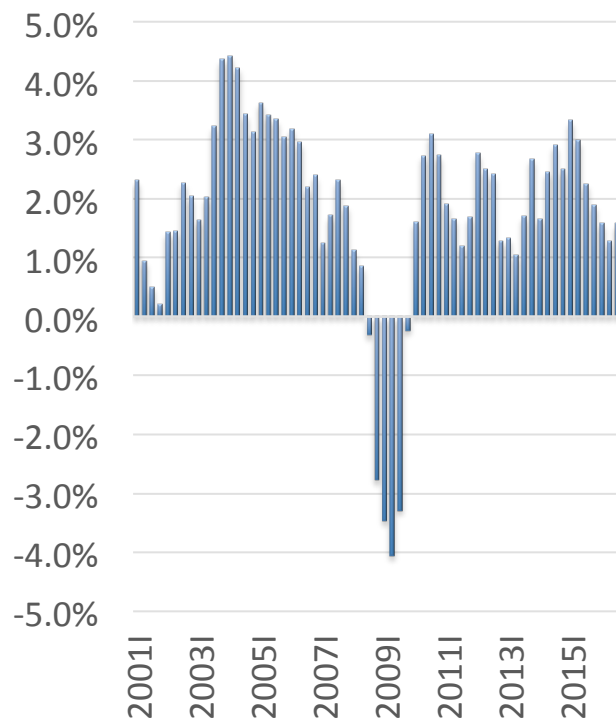
- US GDP is growing slow, but it is growing
- Fundamentals are fine, no chance of recession (for now)
- U.S.: 5% world's population, 20% of the world's consumption
- Real incomes have been rising, true well-being even more so
- Labor markets are tight
- Inflation slow, interest rates low
- US energy: too successful for its own good
- Manufacturing: doing fine, trade (on net) good for US
- California still leading the nation in growth

The true challenges

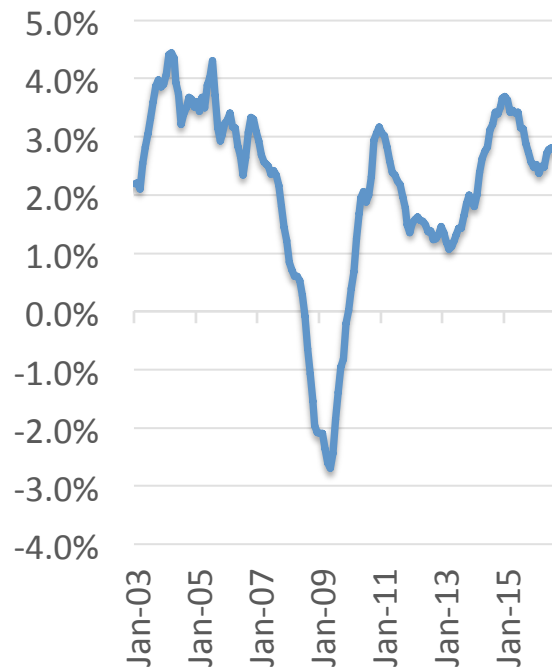
- Slow growth due to self-inflicted wounds / political gridlock
- Global economy weak
- The global commodity glut
- State and Local budgets still stressed, decaying Infrastructure
- The shift to the information economy
- An under-performing housing market / bad financial regulations (Dodd-Frank)
- Underfunded pensions and entitlements
- Growing wealth inequality
- State revenue / water / housing policies
- The growing disconnect between political debate and reality

GDP Growth / the Consumer

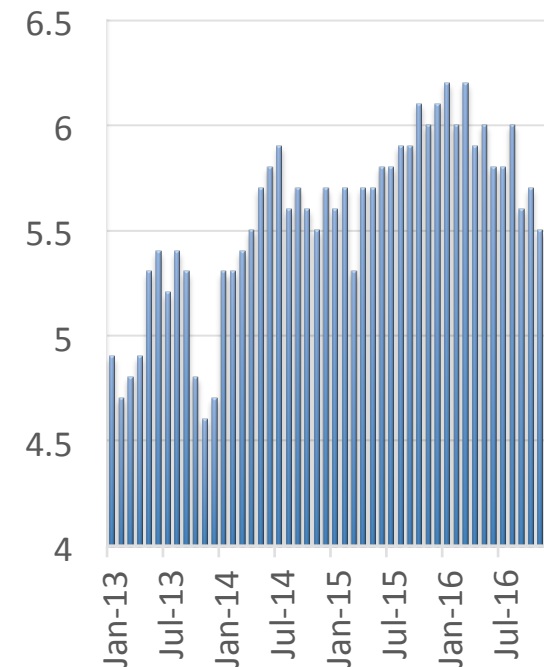
Real GDP Growth (Y-o-Y)



Consumer Spending Growth (Y-o-Y)

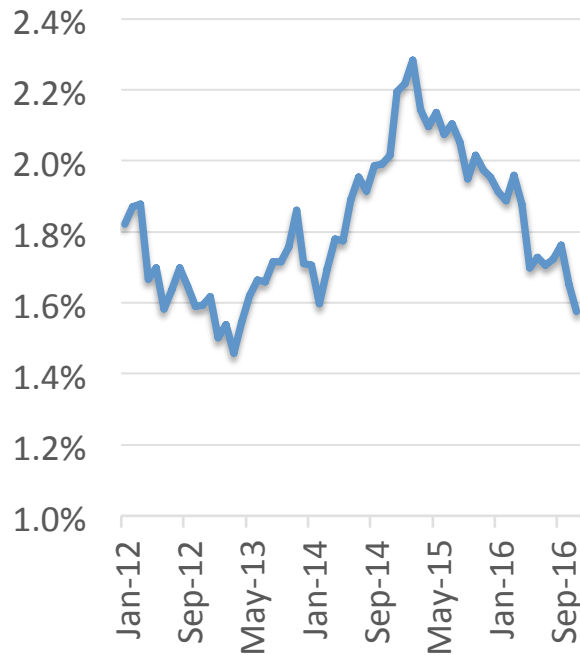


Personal Saving as % DPI

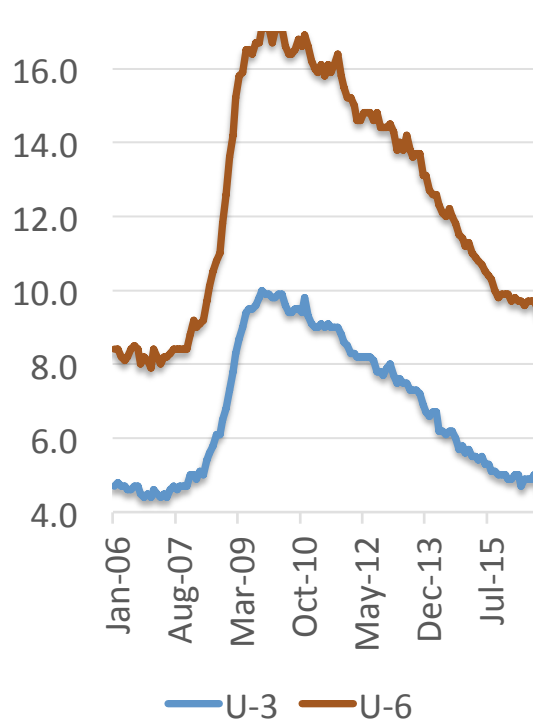


Employment Indicators

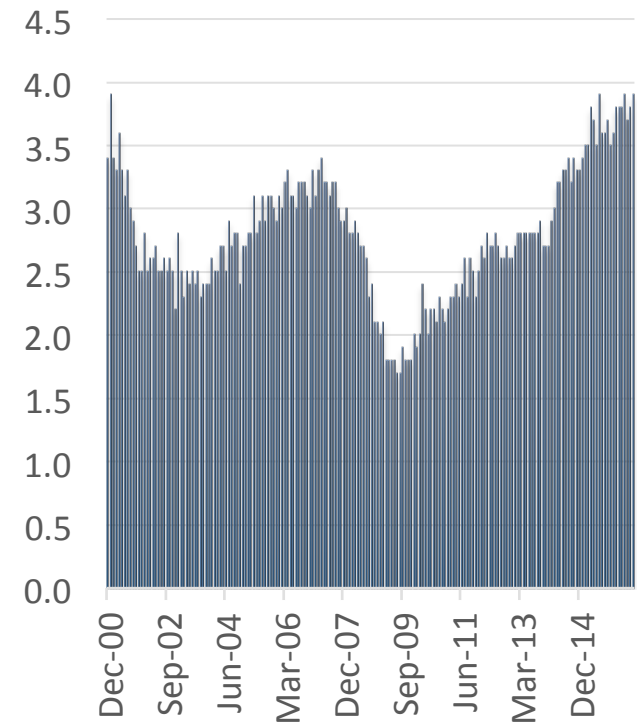
Y-o-Y Growth Employment



US Unemployment Rate

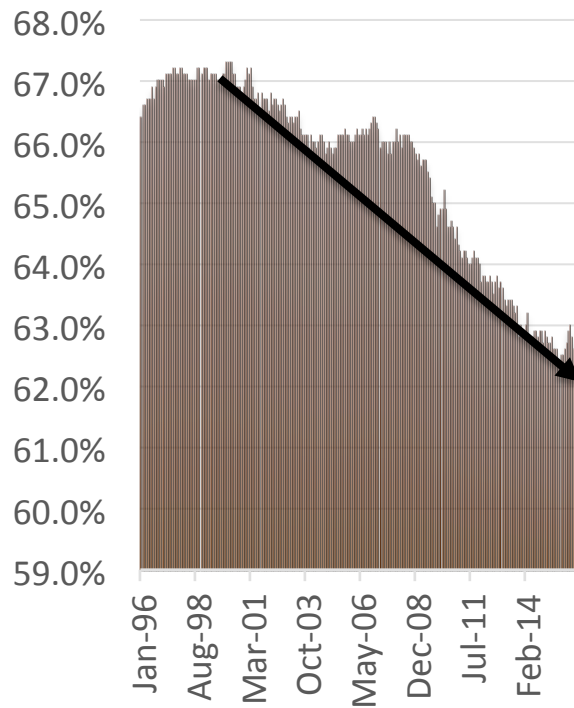


Job Opening Rate

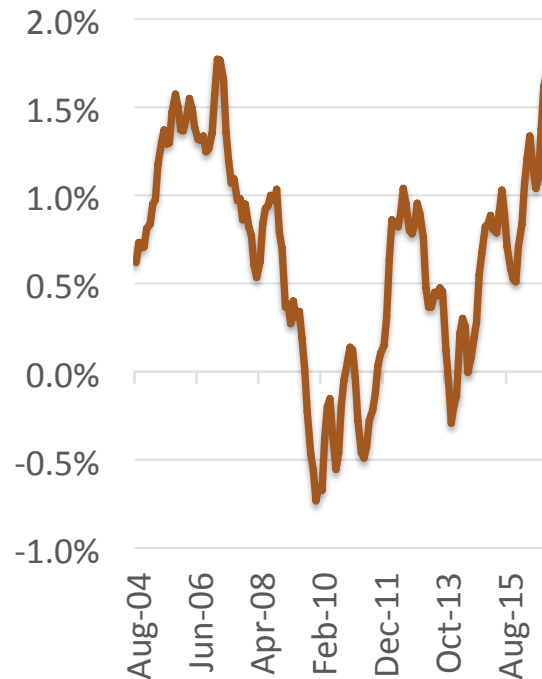


Labor Markets: Tight

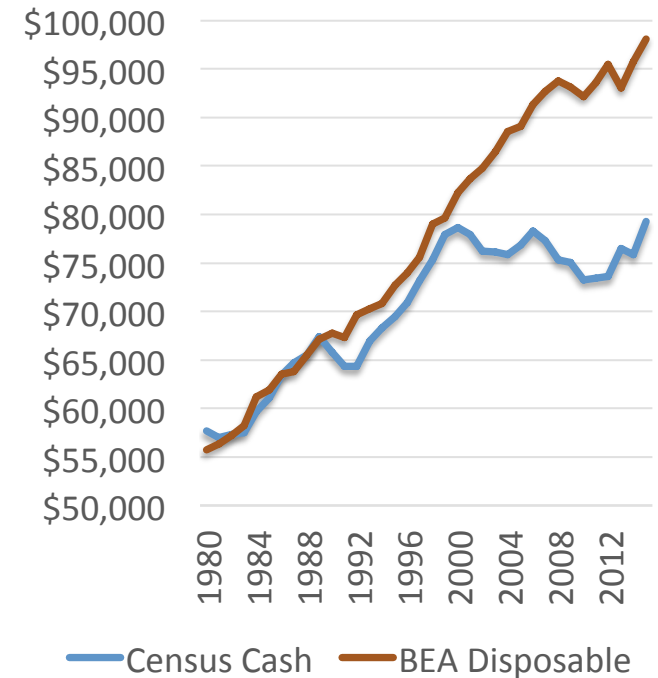
Participation Rate



US Labor Force Growth
(Y-o-Y to Nov)

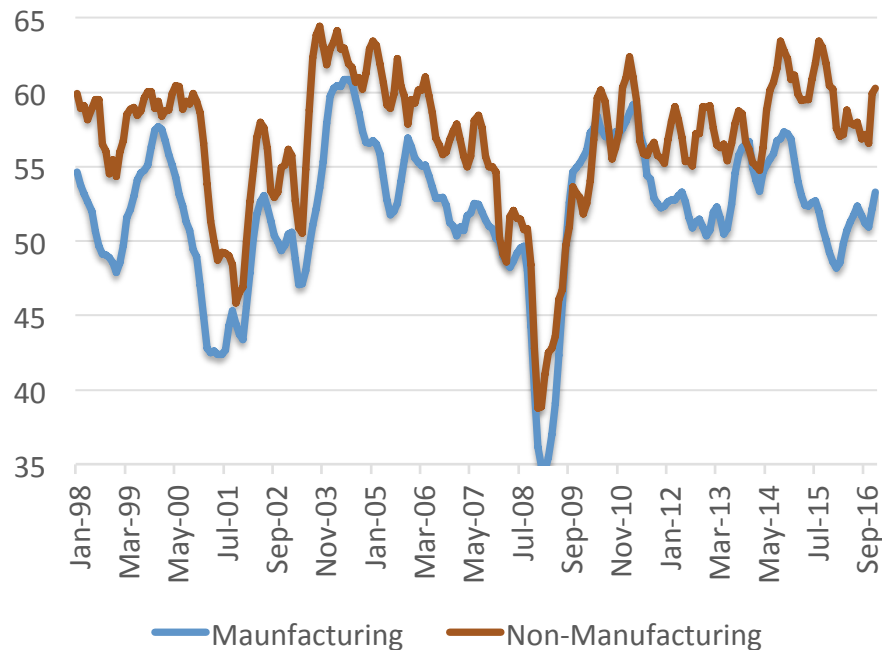


Real Mean Household
Incomes

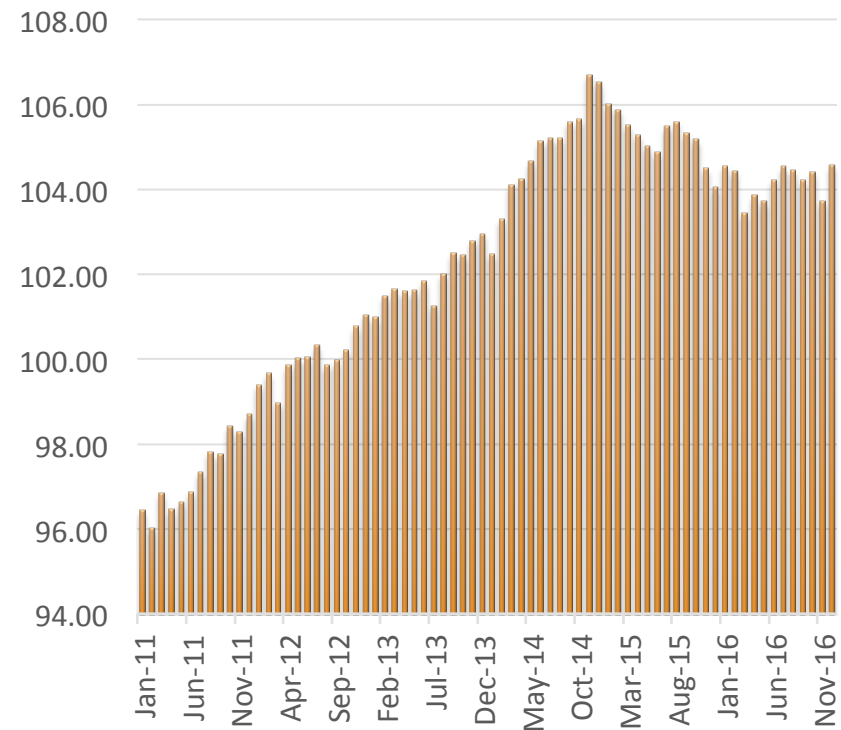


Production Indicators

ISM Indexes to December (Smoothed)

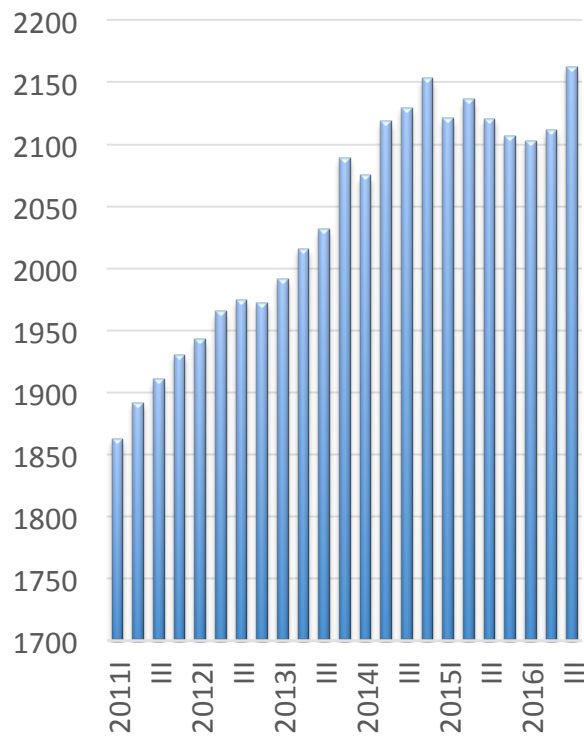


Industrial Production to Dec

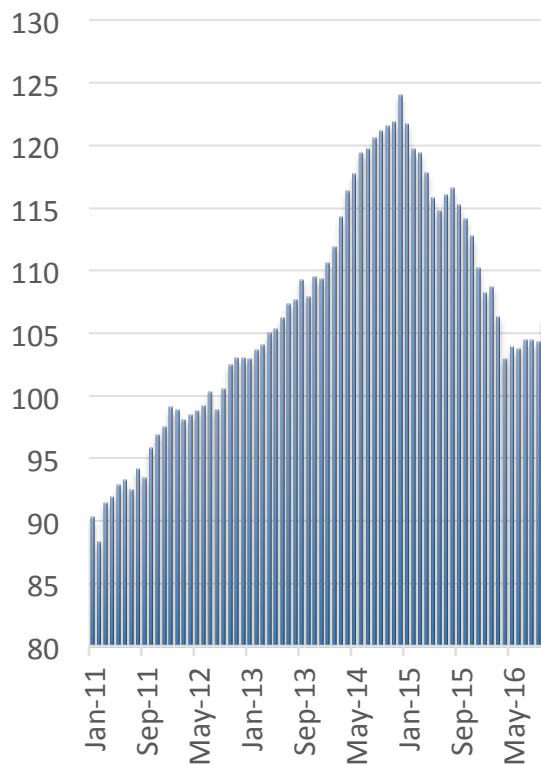


Driving Forces

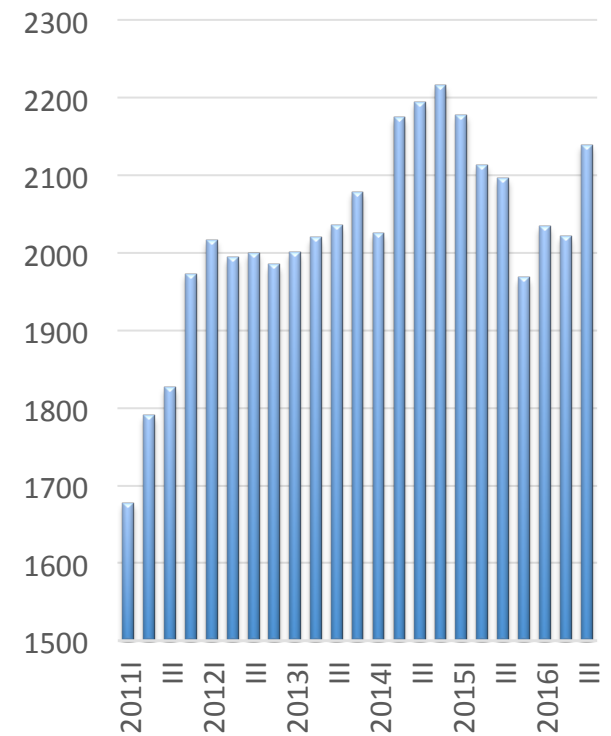
Real Exports



IP: Mining



Corporate Profits



California fact versus fiction



2016 Best & Worst States For Business

- 50 [California](#)
- 49 [New York](#)
- 48 [Illinois](#)
- 47 [New Jersey](#)
- 46 [Massachusetts](#)
- 45 [Connecticut](#)
- 44 [Hawaii](#)
- 43 [Michigan](#)
- 42 [Oregon](#)
- 41 [Vermont](#)
- 40 [Maryland](#)
- 39 [Mississippi](#)
- 38 [West Virginia](#)
- 37 [Rhode Island](#)

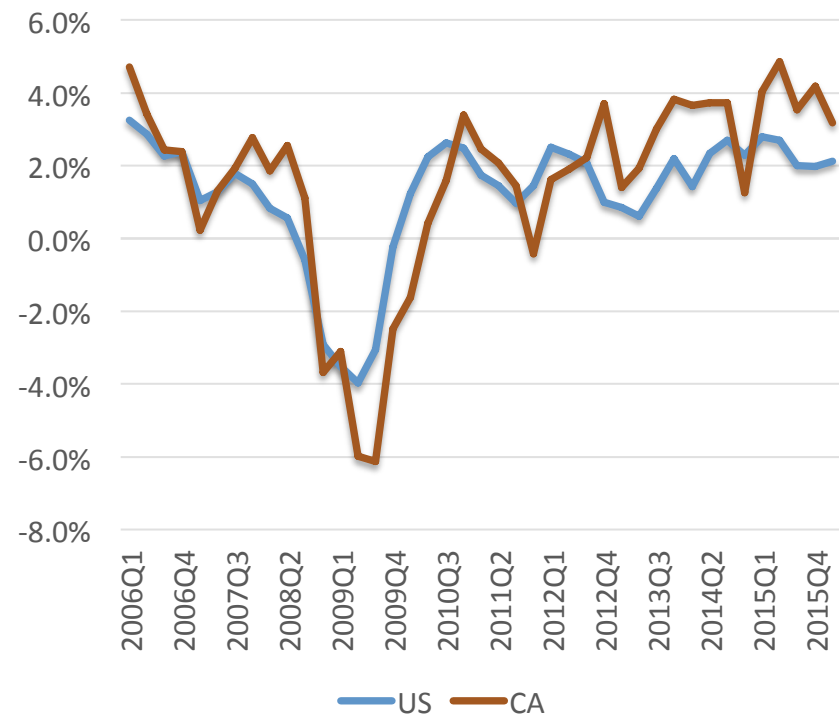


As for California

3 Year Change in Payroll Jobs by State

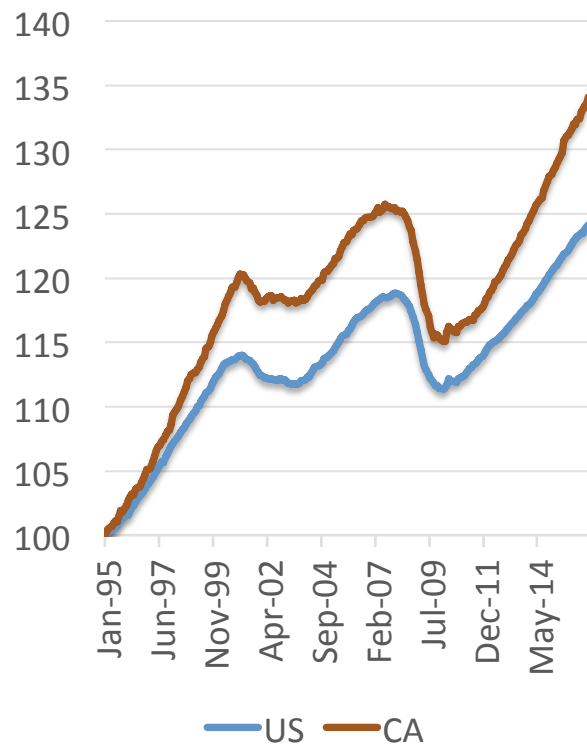
	Abs	Growth	Share
Florida	792.8	3.3%	10.0%
Utah	131.6	3.2%	1.7%
Nevada	117	3.2%	1.5%
Oregon	167.6	3.2%	2.1%
Colorado	219	2.9%	2.8%
Washington	273.7	2.9%	3.5%
Georgia	349.6	2.8%	4.4%
California	1309.1	2.8%	16.5%
Idaho	52.6	2.6%	0.7%
South Carolina	150.7	2.6%	1.9%
Tennessee	211.9	2.5%	2.7%
Texas	828.3	2.4%	10.4%
Arizona	179.4	2.3%	2.3%
North Carolina	264.9	2.1%	3.3%
Delaware	27.9	2.1%	0.4%
Massachusetts	198.6	1.9%	2.5%
Michigan	220.8	1.7%	2.8%

Real GDP Growth (Y-o-Y)

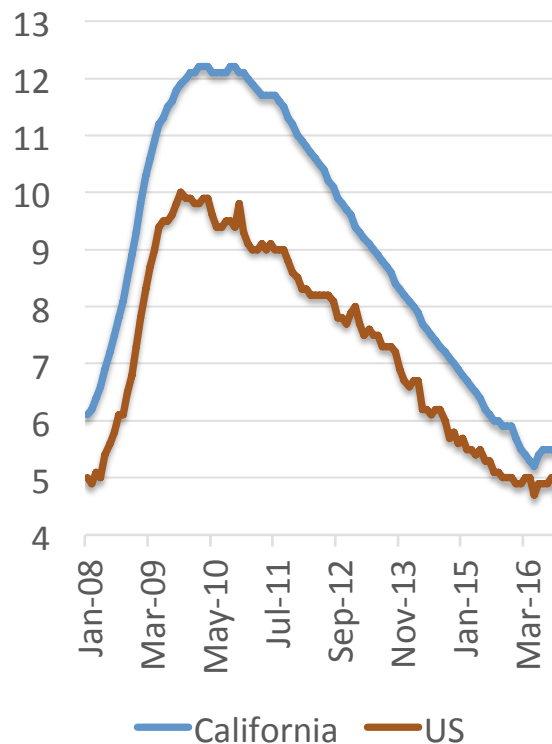


State Employment / Income

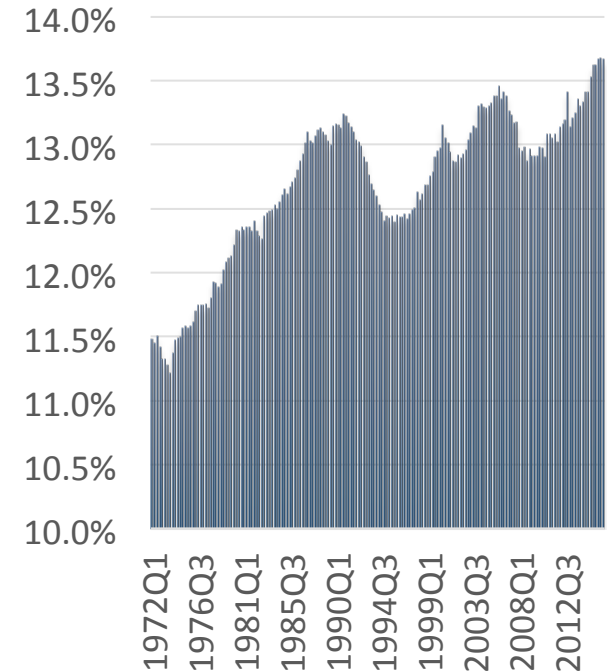
Employment (Index)



Unemployment Rates



CA Share National Personal Income



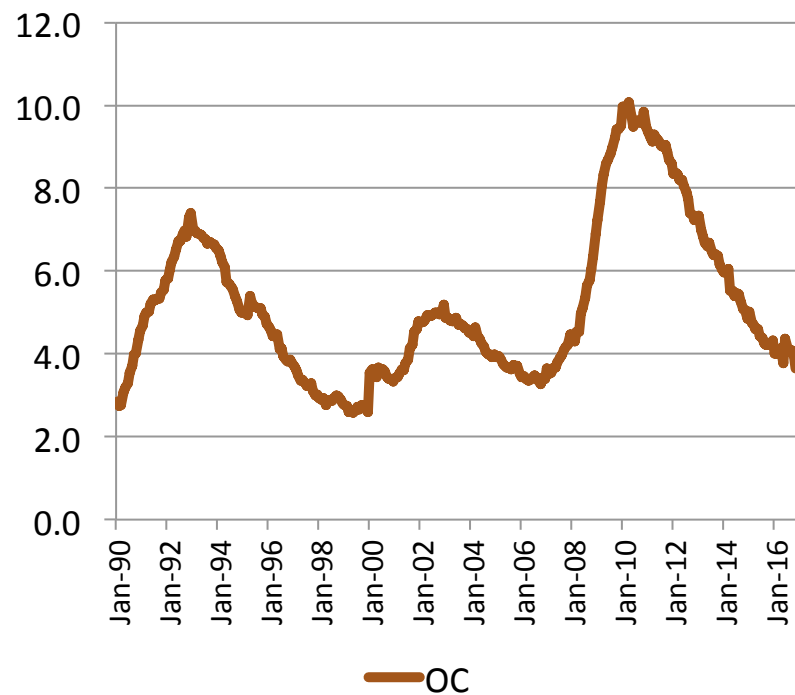
What and Where

	2015	2016
Total Nonfarm	3.1%	2.0%
Education	4.3%	5.9%
Logistics	4.2%	3.7%
Professional	3.9%	3.4%
Hospitality	4.3%	3.0%
Health	4.3%	2.8%
Construction	8.7%	2.8%
Government	1.7%	2.5%
Retail	2.1%	1.5%
Finance / RE	2.5%	1.3%
Information	3.7%	1.2%
Other	1.7%	0.8%
Farm	1.6%	0.8%
Admin	3.3%	-0.5%
Manufacturing	0.4%	-0.6%

	2015	2016
San Jose	4.2%	3.5%
Sacramento	3.1%	3.2%
Modesto	2.9%	3.1%
Inland Empire	3.6%	3.0%
Santa Barbara	2.6%	3.0%
Vallejo	3.8%	2.8%
East Bay	2.8%	2.7%
Orange Cnty	3.1%	2.0%
San Diego	2.9%	2.0%
Fresno	3.7%	1.6%
Kern	0.7%	1.4%
Los Angeles	2.7%	1.4%
Soinoma	3.9%	0.8%
Ventura	1.1%	0.8%
Stockton	4.3%	0.3%
Monterey	4.8%	-0.7%

Employment

Unemployment Rate

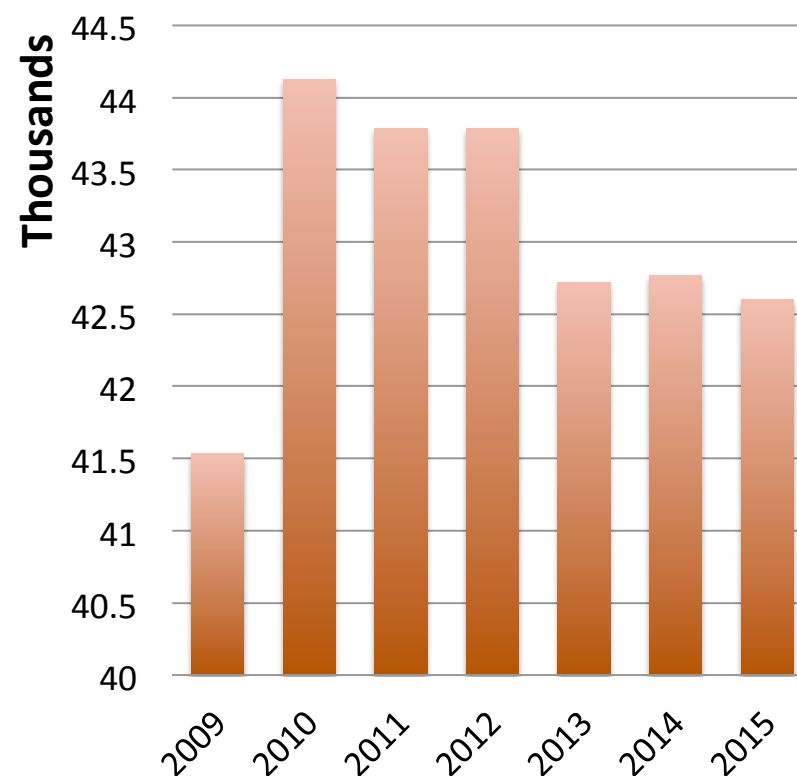


Industry Employment for OC ('000s) & 5 Yr Growth

Industry	Nov-16	OC
Total Nonfarm	1,598.9	14.7%
Health Care	182.9	23.9%
Prof Sci and Tech	133.2	22.1%
Leisure and Hosp.	213.7	20.6%
Other Services	51.1	18.1%
Management	29.4	17.7%
Admin Support	134.8	17.6%
Financial Activities	117.0	11.1%
Wholesale Trade	84.2	10.6%
Educational Srvs	27.1	10.6%
Information	26.2	9.4%
Government	161.6	7.4%
Retail Trade	151.9	6.0%
NR/Mining	0.6	1.2%
Manufacturing	156.3	0.1%

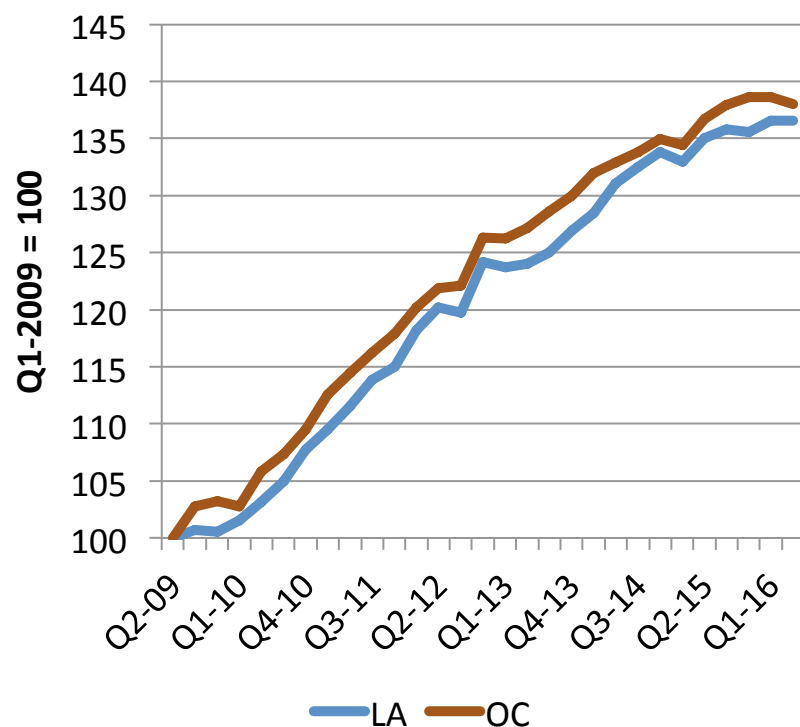
NB: Resident Employment

Industry	2015	1-Yr. Chg.	1-Yr. % Chg.	Location Quotient*	Median Earnings
Total	42,620	-136	-0.30%	-	\$66,600
Professional/Business	7,989	-120	-1.50%	1.5	\$80,856
Education/Health	7,581	281	3.80%	0.8	\$64,272
Financial Activities	7,464	-121	-1.60%	2.8	\$85,972
Manufacturing	4,438	98	2.30%	1.1	\$101,059
Retail trade	4,026	-427	-9.60%	0.9	\$35,274
Hospitality	3,321	75	2.30%	0.8	\$26,623
Wholesale trade	1,943	10	0.50%	1.5	\$72,691
Construction	1,676	-37	-2.20%	0.7	\$77,031
Other services	1,400	18	1.30%	0.6	\$30,872
TTU	1,039	105	11.20%	0.5	\$60,656
Information	1,000	-49	-4.70%	0.8	\$56,339
Government	648	57	9.60%	0.3	\$81,579



Taxable Sales

Taxable Sales (Indexed)



Sales Tax Receipts (\$ millions)

Category	Q2-16	Q2-15	YoY % Chg
Total	155.7	154.2	1.0%
Building Construction	11.8	11.1	5.9%
Restaurants and Hotels	23.9	23.0	4.1%
Autos and Transportation	26.6	25.7	3.4%
Food and Drugs	6.8	6.6	3.1%
General Consumer Goods	36.6	36.3	0.7%
Business and Industry	21.1	21.2	-0.8%
Fuel and Service Stations	10.8	13.1	-17.3%

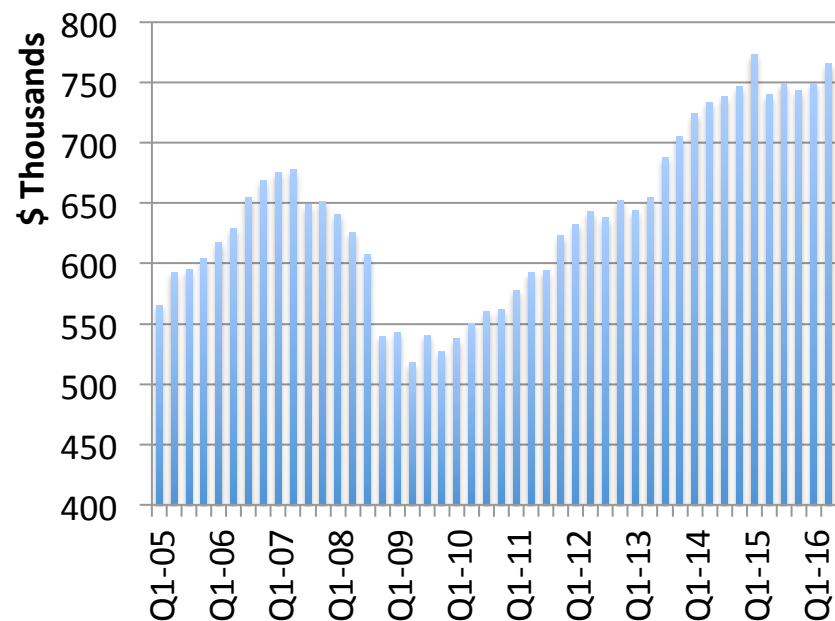
Taxable Sales

Orange County Taxable Receipts, 2016 YTD (Q1 – Q3) vs. 2015 YTD (Q1 – Q3)

Category	2016 YTD	YTY Chg.	YTY % Chg.
Autos and Transportation	52,553,086	1,939,848	3.8%
Building and Construction	22,930,469	1,365,847	6.3%
Business and Industry	42,053,968	57,071	0.1%
Food and Drugs	13,253,624	320,221	2.5%
Fuel and Service Stations	21,673,167	-3,250,639	-13.0%
General Consumer Goods	67,843,194	390,637	0.6%
Restaurants and Hotels	47,593,802	2,301,960	5.1%
Total	302,848,909	5,964,317	2.0%

Source: HdL Companies

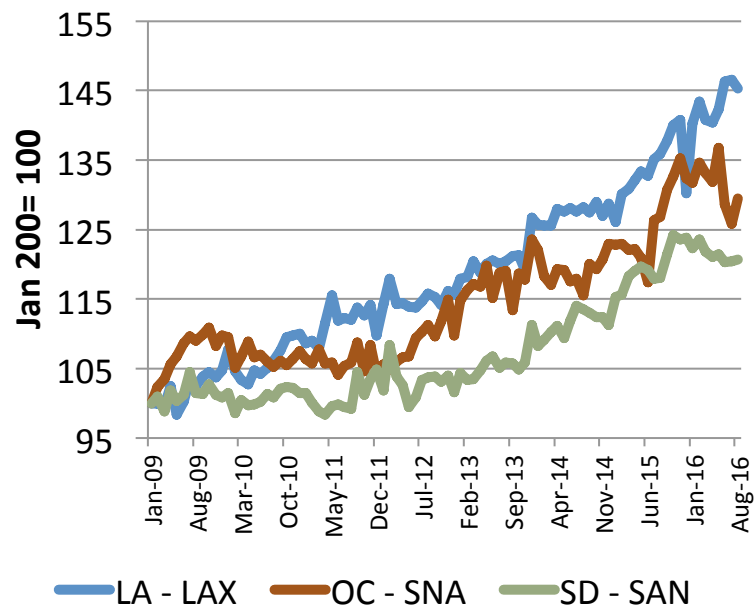
Taxable Sales, Newport Beach



Source: CA Board of Equalization

Tourism

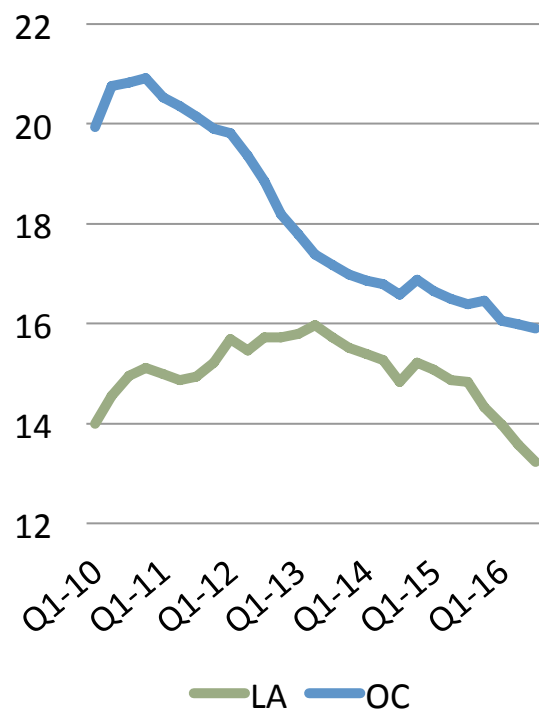
**Total Passenger Traffic
(Indexed)**



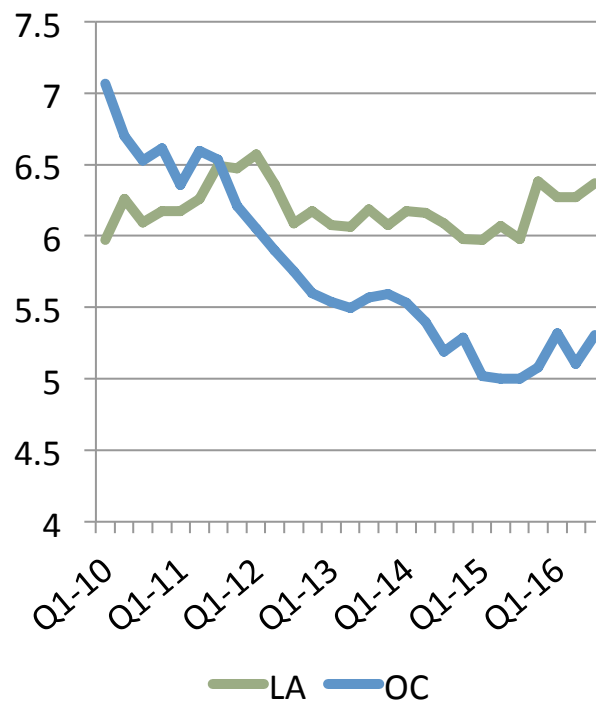
Location	Daily Rate		Occupancy %		RevPar	
	2016	Var	2016	Var	2016	Var
ANAHEIM	\$190.6	0.6%	92.8%	0.5%	\$177.0	1.0%
COSTA MESA	\$156.2	5.2%	89.0%	-2.3%	\$139.0	2.8%
OC AIRPORT (SNA)	\$152.1	1.6%	87.7%	-3.0%	\$133.4	-1.5%
NORTH OC	\$128.4	5.8%	91.6%	-2.4%	\$117.6	3.3%
SOUTH OC	\$300.2	2.1%	86.3%	-0.8%	\$259.1	1.3%
NEWPORT BEACH	\$321.1	2.3%	88.0%	2.8%	\$282.7	5.2%
HUNTINGTON BEACH	\$339.2	1.0%	86.9%	-0.3%	\$294.7	0.7%
OVERALL AVG	\$205.8	1.9%	90.2%	-0.5%	\$185.7	1.4%

Commercial

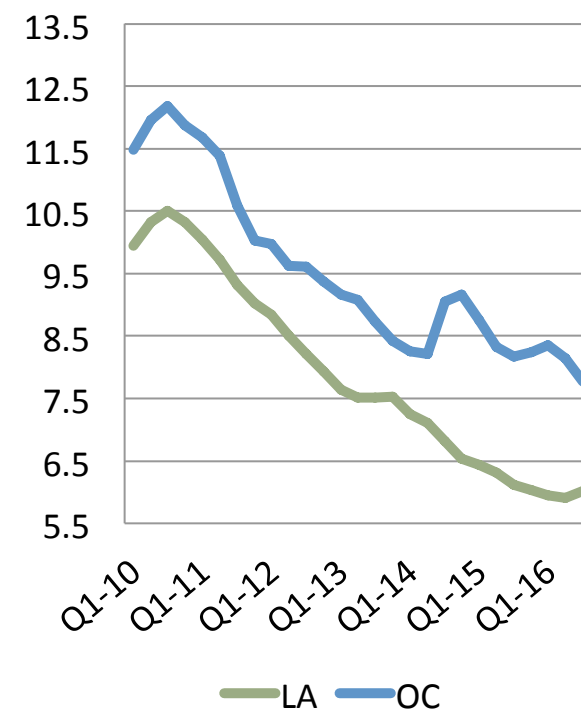
Office Vacancy (SA)



Retail Vacancy (SA)



Industrial Vacancy (SA)



Non-Residential Permits

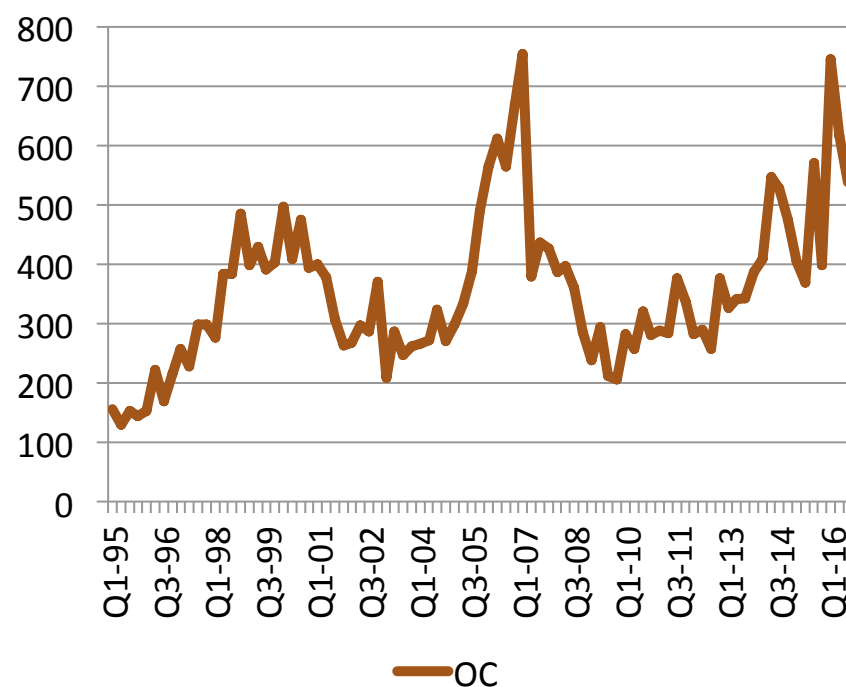
Non-Residential Permit Value ('000s)

Q3-16	LA	OC	SD
Commercial	271	170	70
Industrial	47	0	6
Alt./Add	590	251	201
Other	143	116	129
Non Res Total	1,051	537	407

LA OC SD

Q3-16 YoY Chg -23.4% -5.9% -11.2%

Non-Res Permits (\$ '000s)



Quiz Time

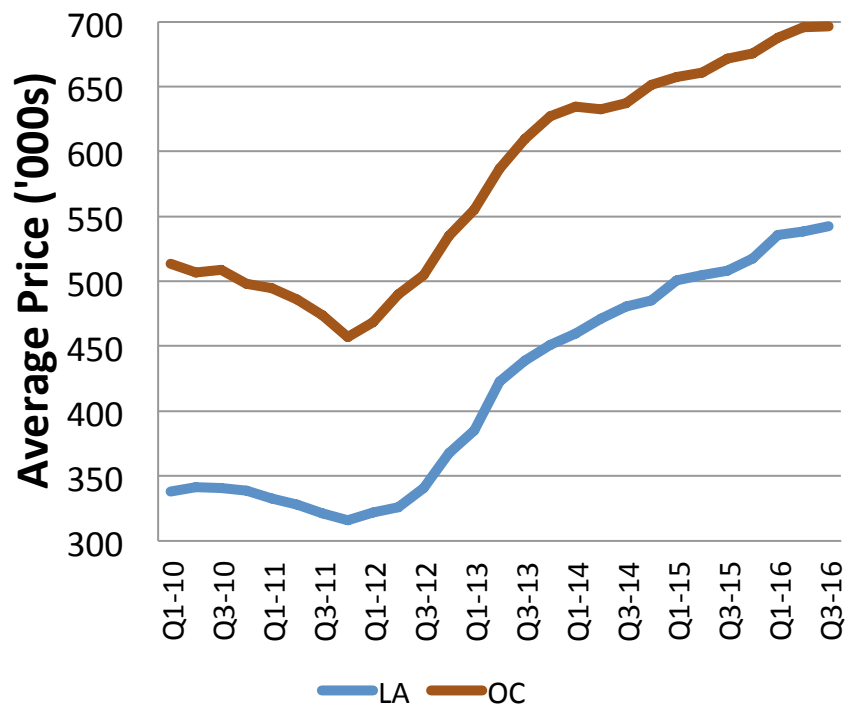
Match the payroll employment growth rate (letters)
(1995-2015) to the California region (numbers)

A	23.6%
B	25.8%
C	27.0%
D	33.8%
E	39.8%

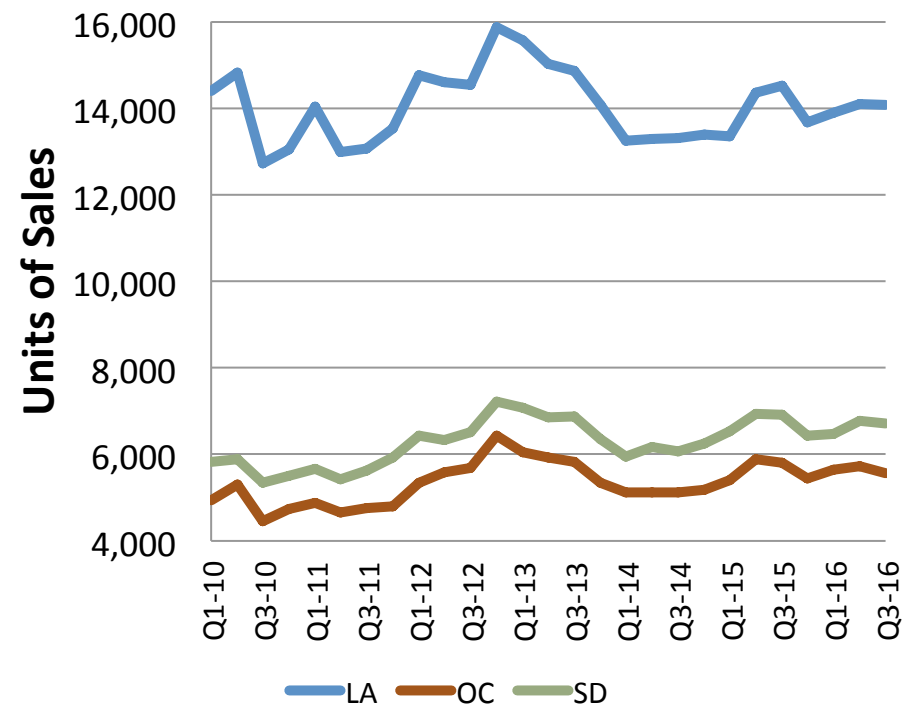
1	Bay Area
2	Central Coast
3	Greater Los Angeles
4	Greater Sacramento
5	So Central Valley

Real Estate - SFR

Average SFR Price (SA)

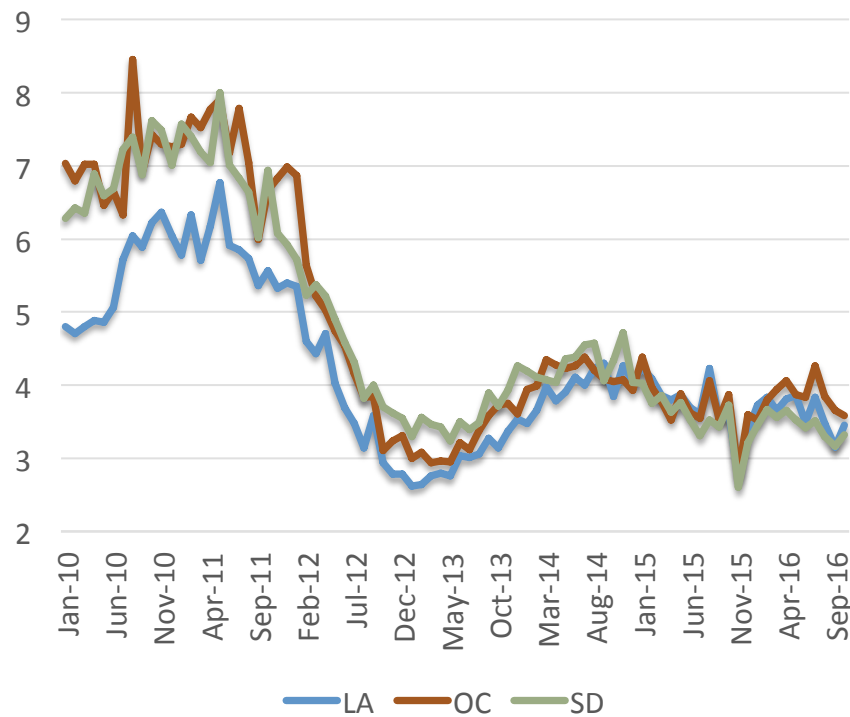


Average SFR Sales (SA)

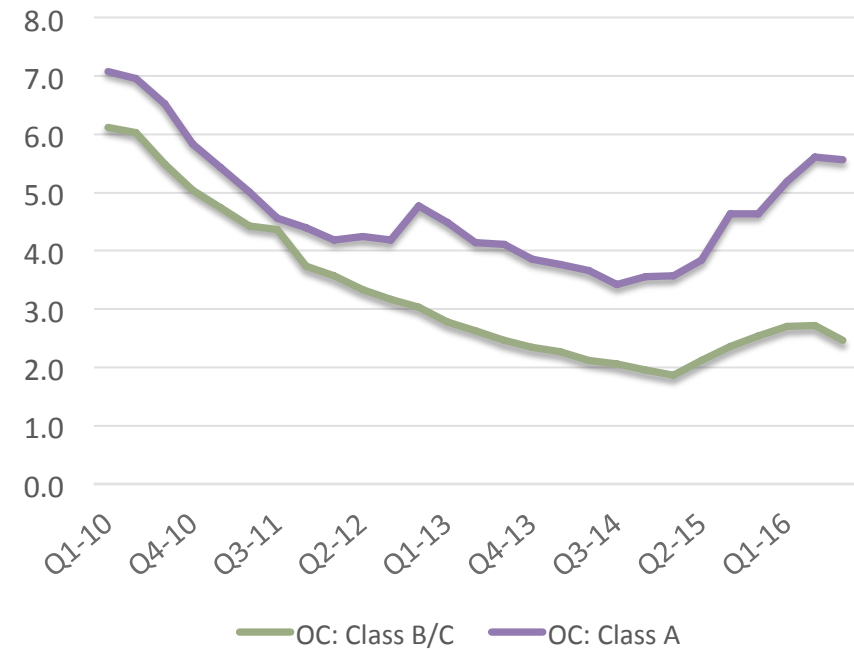


Vacancies

Housing Inventories



Apartment Vacancy Rates (SA)



Vacancies

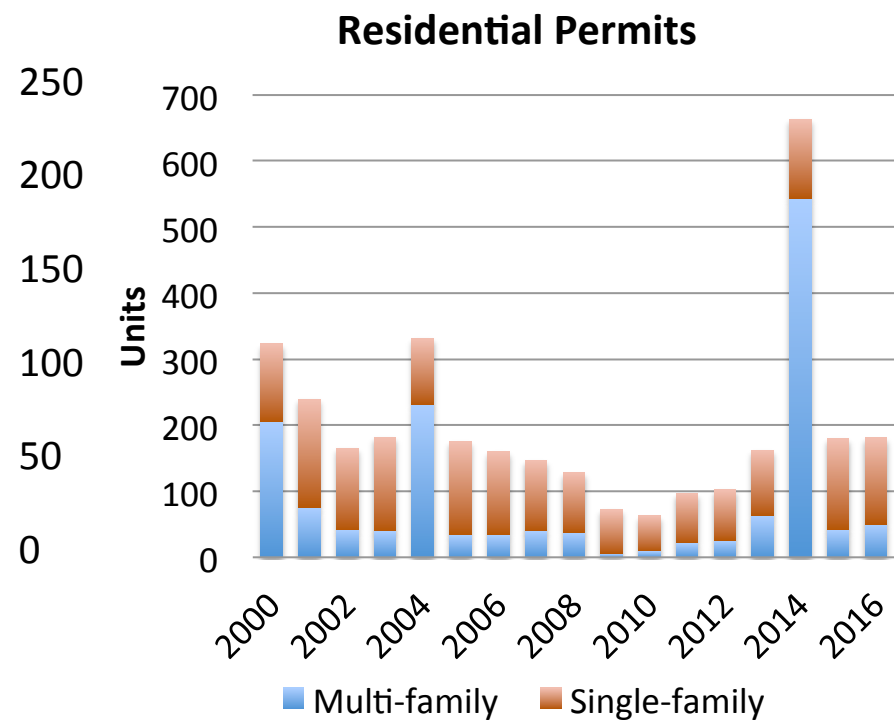
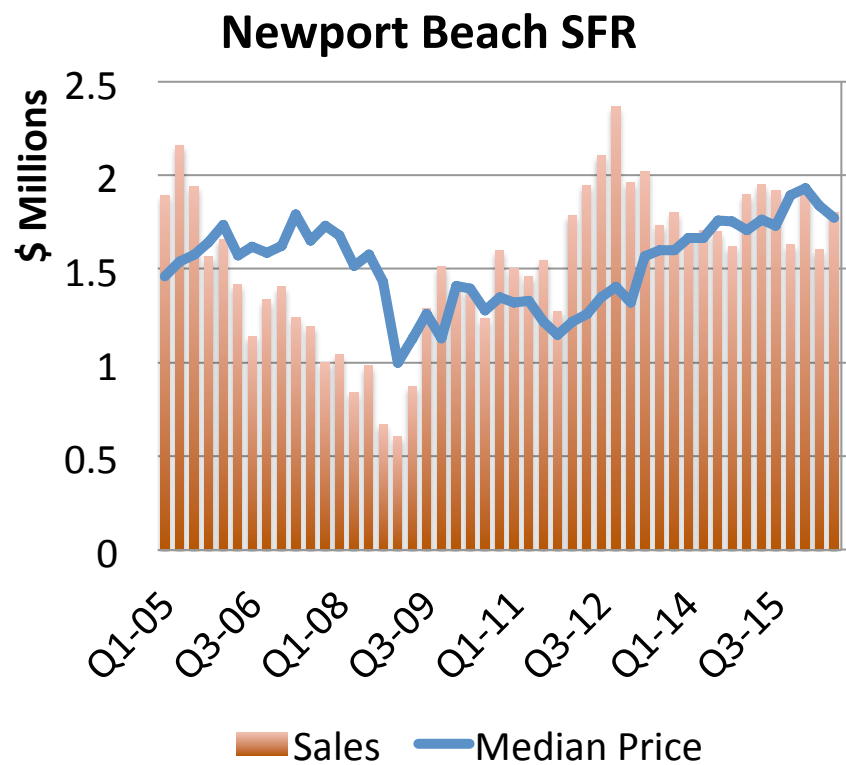
Share Renters with > 30% of Income on Rent

	2010	2014
Los Angeles	59.2%	60.1%
Riverside	62.7%	59.8%
Santa Barbara	56.7%	58.4%
Fresno	57.0%	58.3%
Orange	58.3%	58.0%
San Diego	58.8%	56.7%
Sacramento	58.7%	54.5%
Alameda	53.7%	51.4%
Santa Clara	47.7%	49.2%
San Francisco	46.2%	42.5%

New Pop / Permits

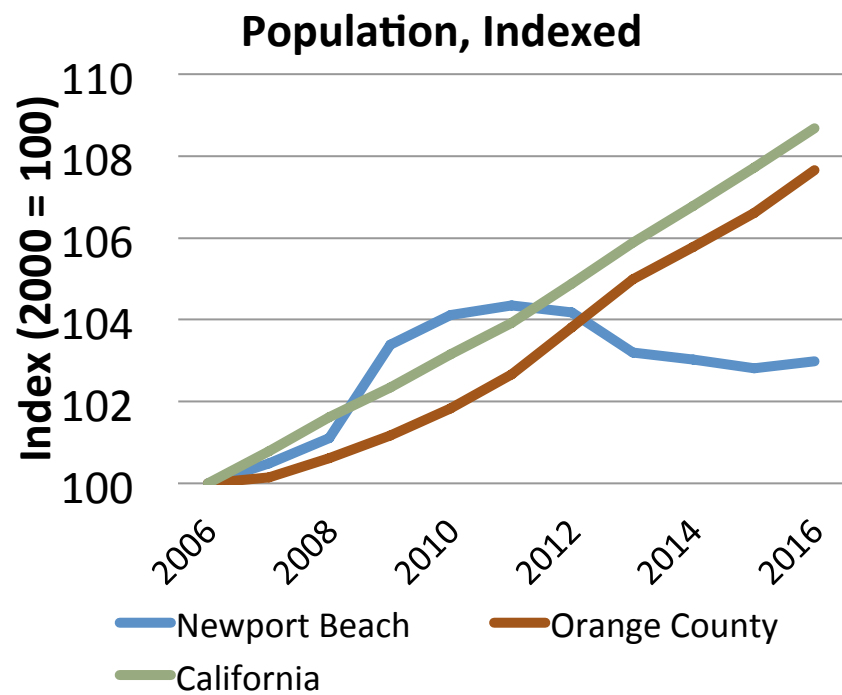
California	4.1	Tulare	4.0
Ventura	6.8	Los Angeles	4.0
Contra Costa	6.6	Fresno	4.0
Sonoma	6.1	San Mateo	3.4
Alameda	5.9	Kern	3.0
Santa Barbara	5.3	Santa Clara	3.0
San Bernardino	5.0	Orange	2.8
Solano	4.6	Placer	2.1
Riverside	4.5	San Francisco	2.1
San Diego	4.2	Sacramento	0.7

Residential Real Estate

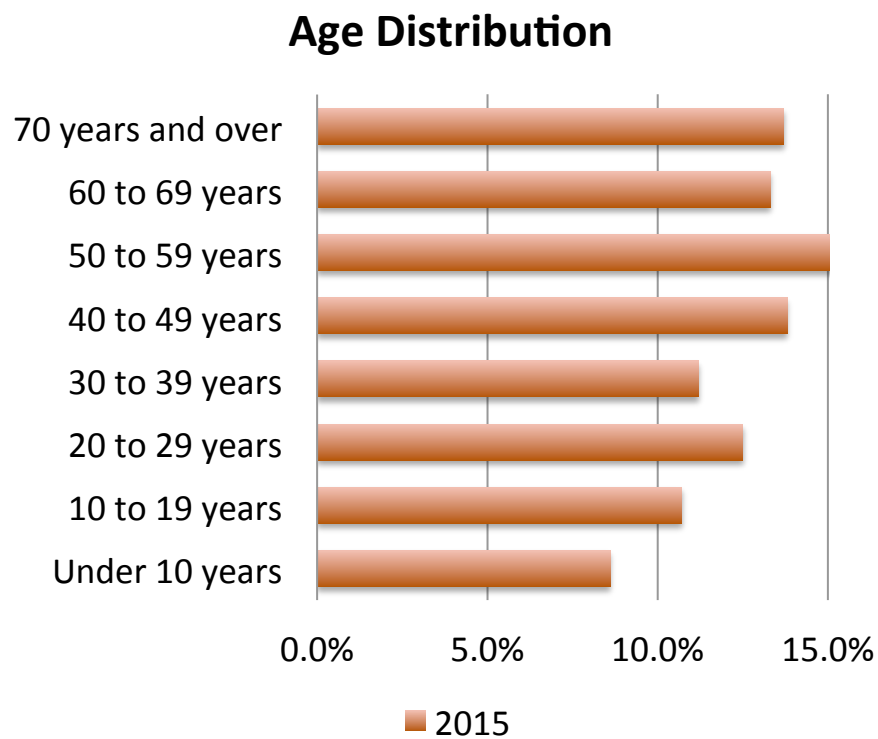


Source: CIRB

Population



Source: CA Department of Finance



Source: American Community Survey

Revenue Forecast Summary

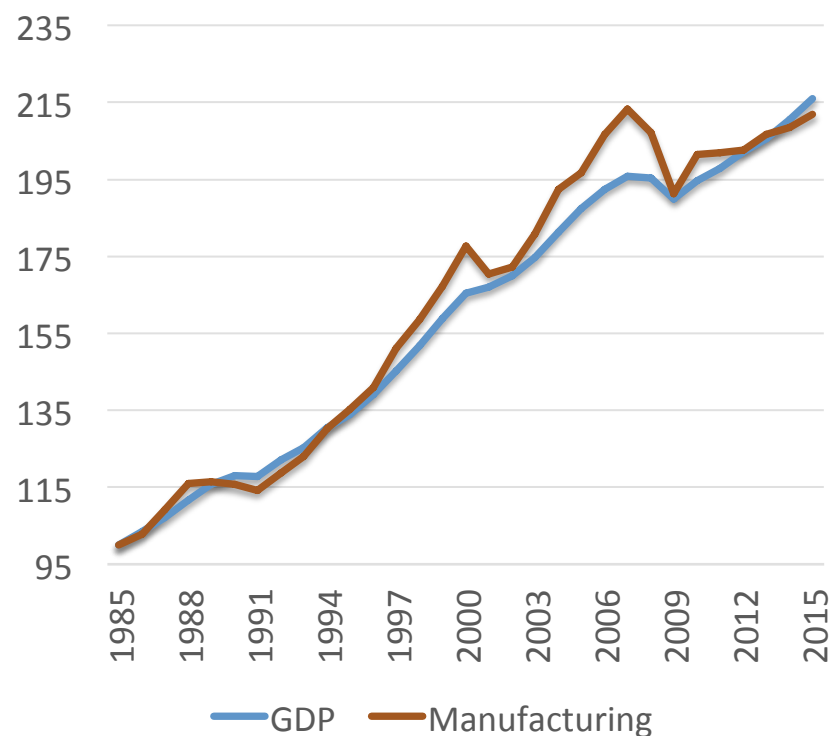
Revenue Source Growth Rates, FY 2016-17 to FY 2021-22

Fiscal Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Assessed Valuation	6.5%	5.8%	5.8%	5.9%	5.6%	5.5%
Taxable Sales	5.8%	5.3%	5.1%	5.0%	4.6%	4.5%
Transient Occupancy Tax	8.8%	7.0%	6.6%	6.5%	6.5%	6.3%
Building Permit Valuations	25.7%	4.3%	3.2%	3.4%	3.1%	2.8%

Source: Beacon Economics, LLC.

Manufacturing and Technology

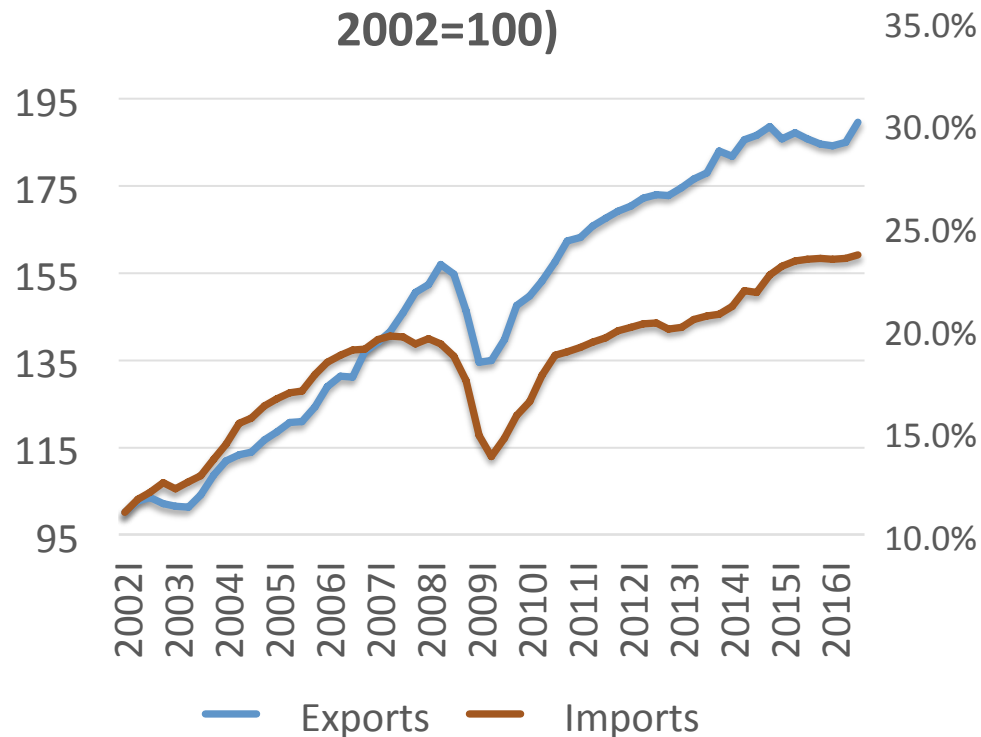
Real VA Output



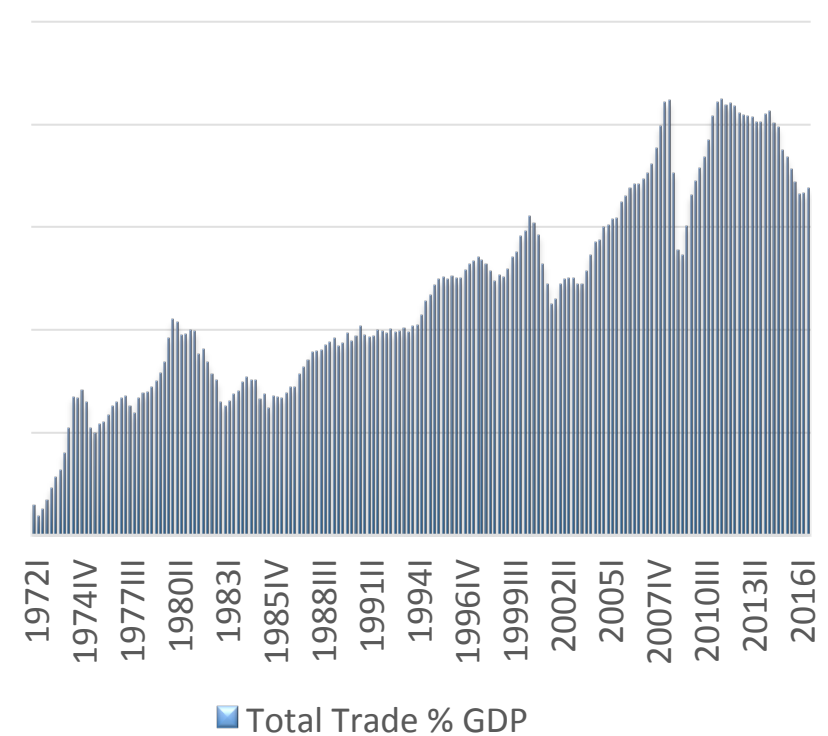
Growth in Real Output	Jobs	Prod.
Total	-5018	61%
Computer	-761	548%
Petroleum Prod	-9	40%
Motor vehicles	-353	85%
Primary metals	-240	61%
Other transportation	-111	33%
Chemical products	-160	37%
Plastics	-248	12%
Electrical eq	-205	44%
Fabricated metal	-287	8%
Printing	-372	41%
Nonmetallic mineral	-131	7%
Food and beverage	40	5%
Wood products	-240	30%
Furniture	-271	9%
Paper	-258	10%
Textile mills	-396	14%
Apparel	-527	15%

Trade Indicators

Real Imports and Exports (Index 2002=100)

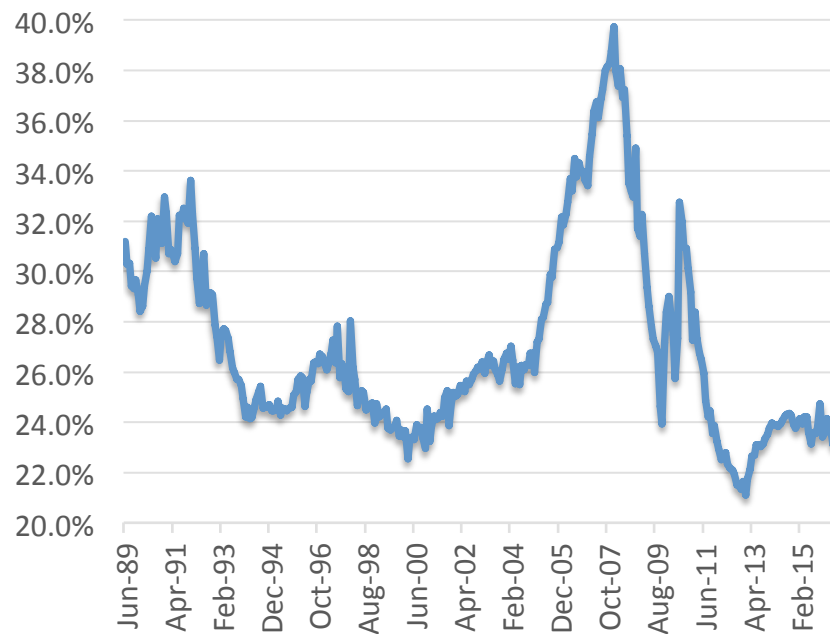


Nominal Trade Flows as % GDP

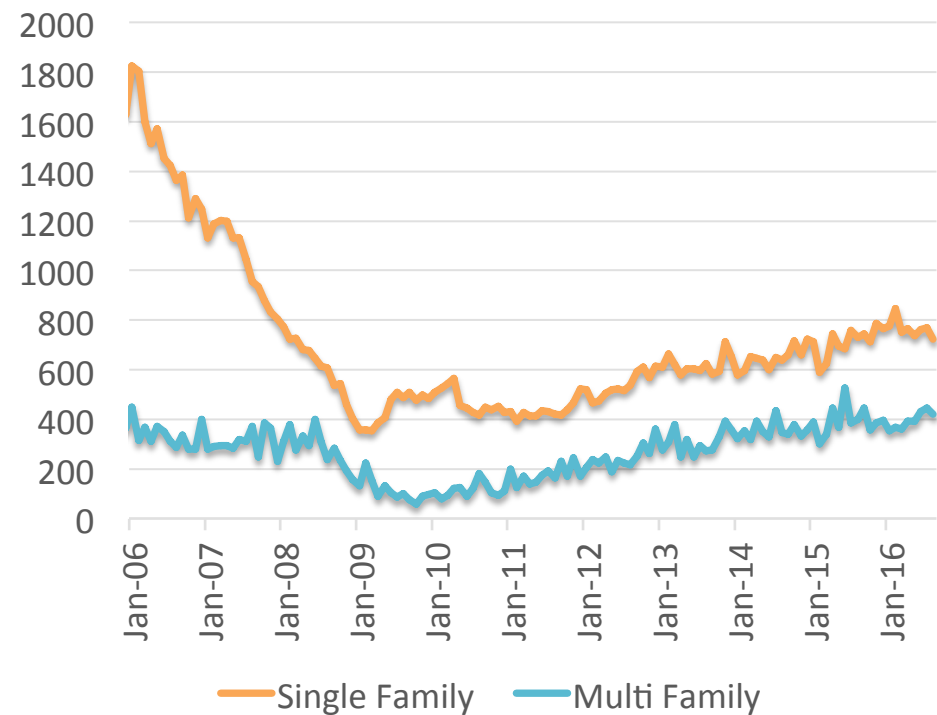


Housing Markets

**Affordability: Median Price for
Median HH, Tax Adjustment, DPI**

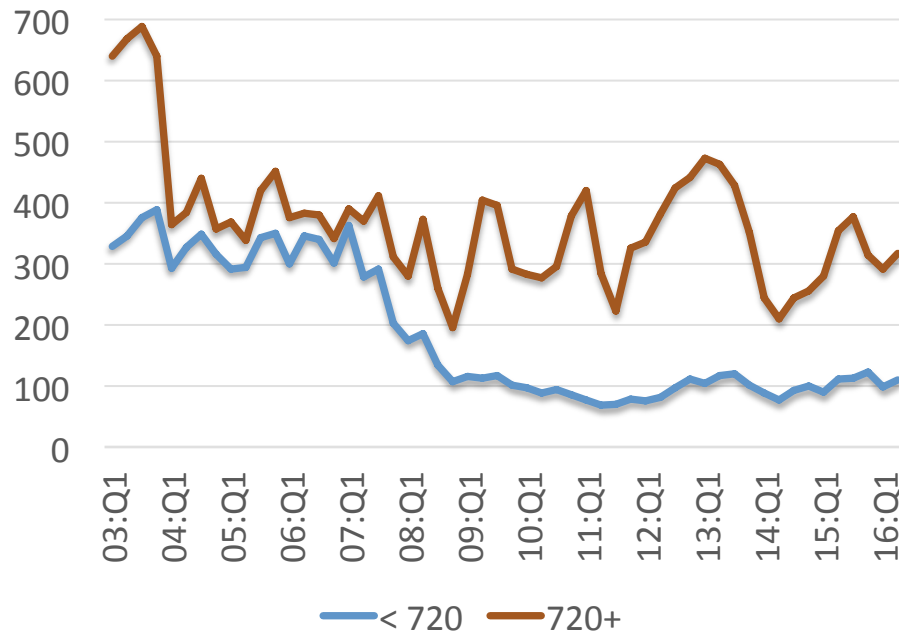


Housing Starts (SAAR)

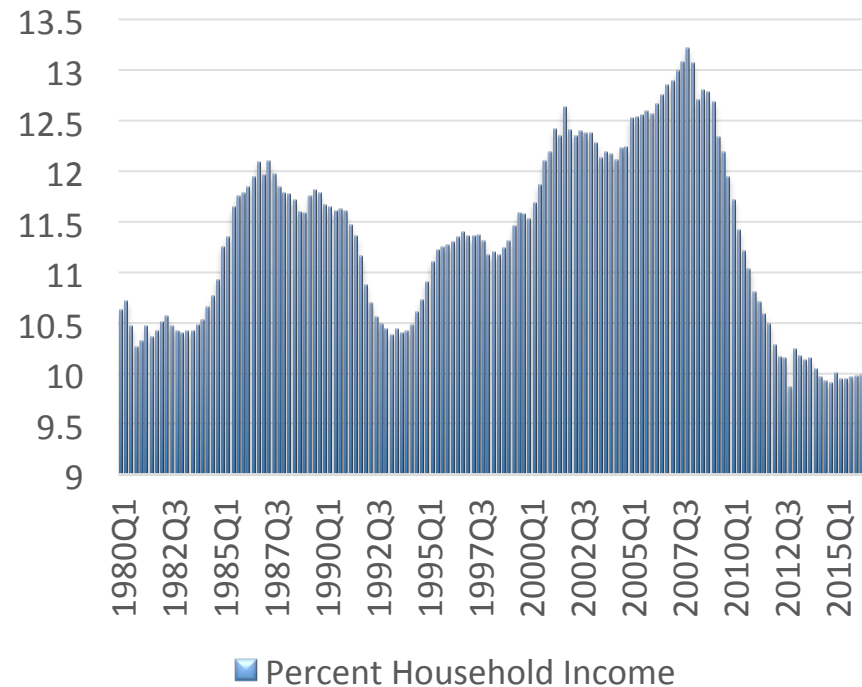


Mortgage Impediments

Mortgage Credit Origination by Credit Score



US Debt Service Ratio

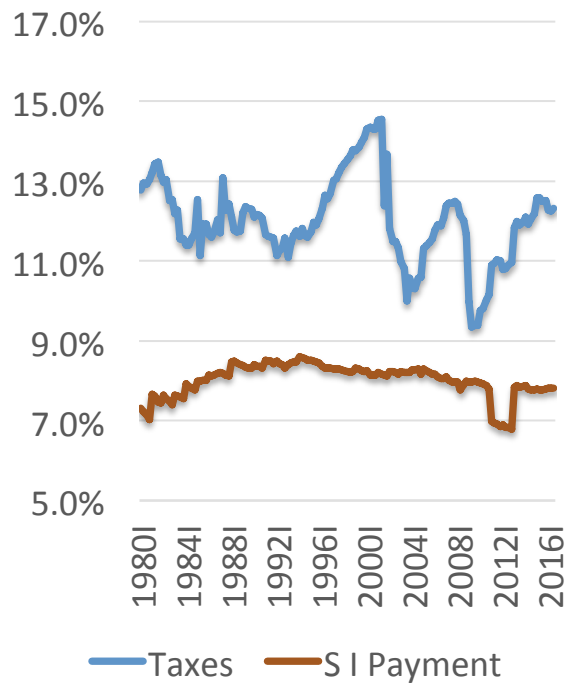


US Taxes

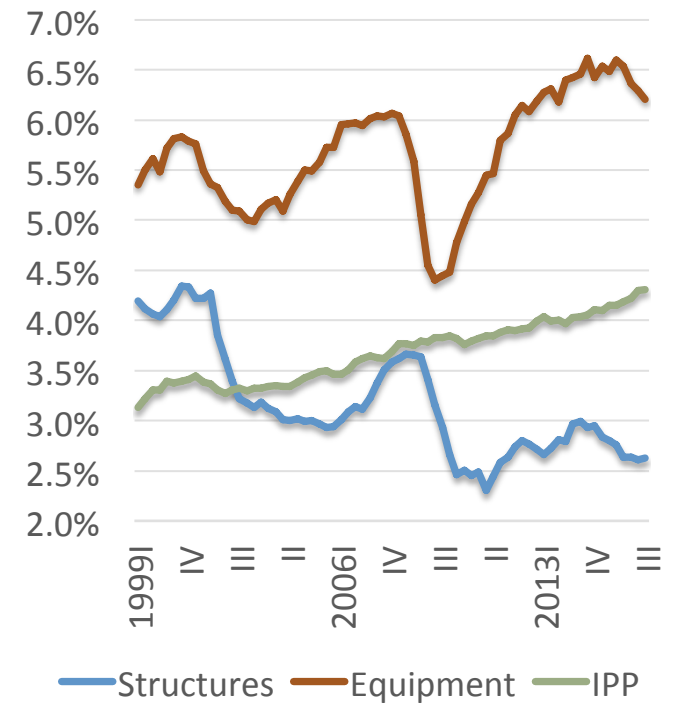
**Corporate Effective Tax Rate
State and Federal**



**Income Taxes Share of
Income**

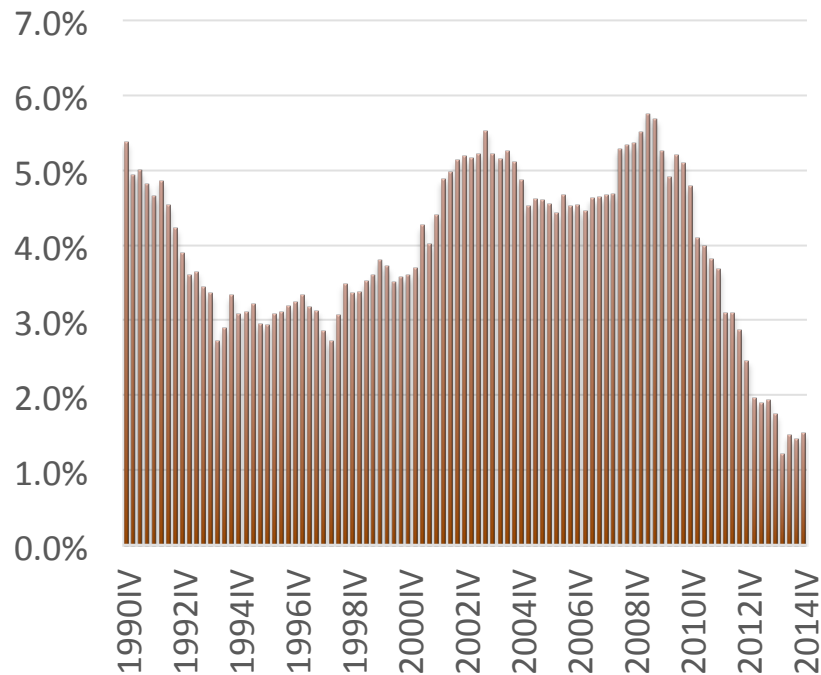


**Investment (Real) Share of
GDP**

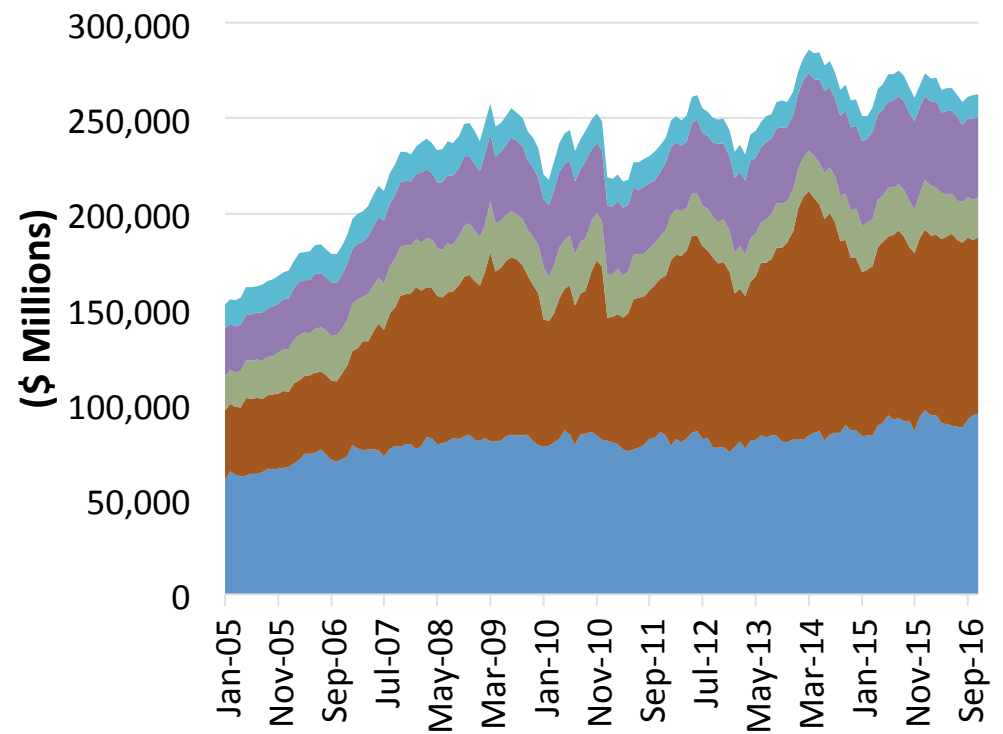


Public Construction

Public Net Investment as % of Revenues

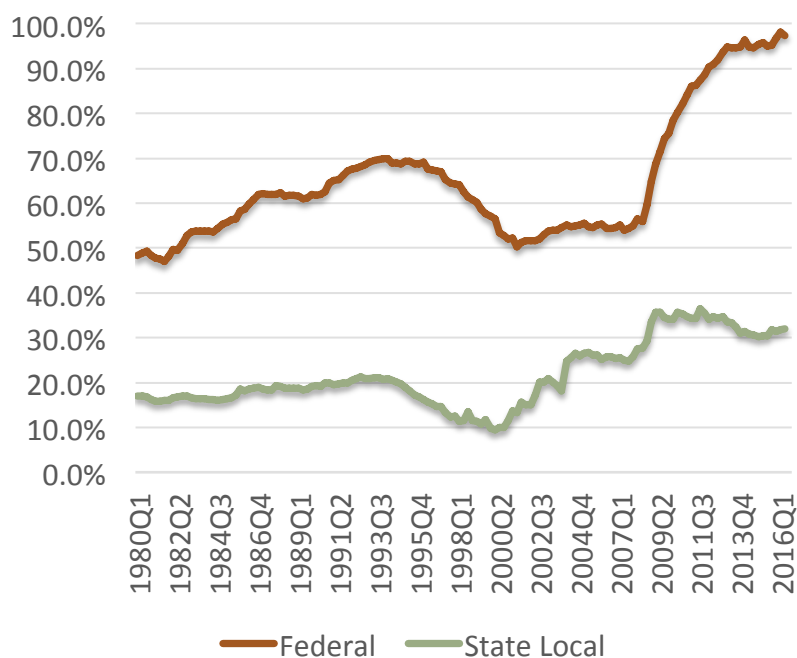


U.S. Infrastructure Construction Spending



Federal Budget

Government Gross Debt as % of GDP



Real Net Worth: Federal Reserve Survey of Consumer Finances

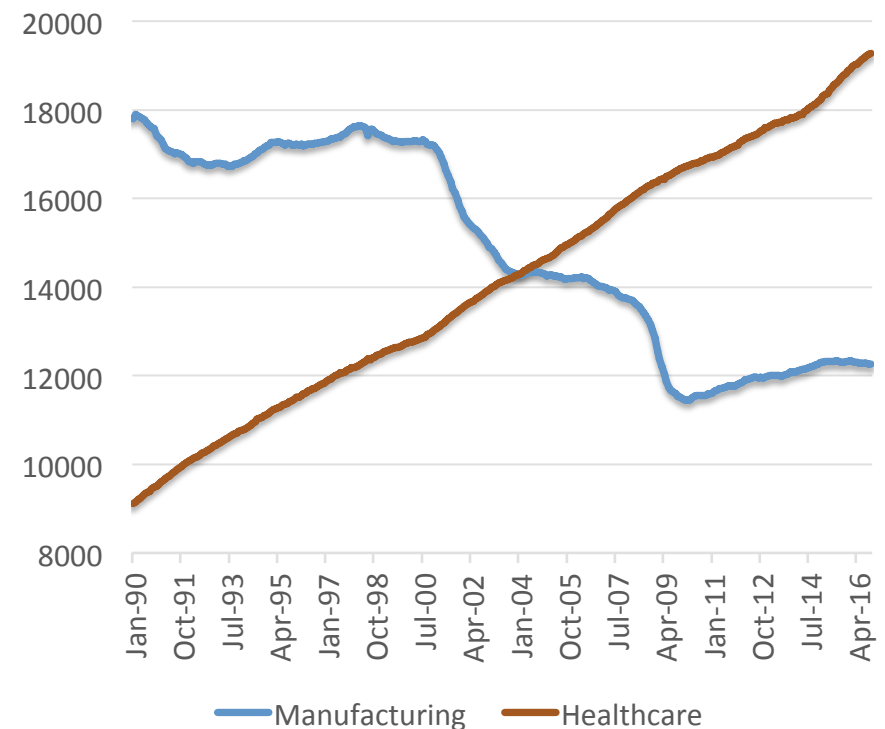
	1989	2001	2013
Mean Net Worth by Percentile of Net Worth			
Less than 25	-\$1.0	\$0.1	-\$13.0
25–49.9	\$41.8	\$58.4	\$35.9
50–74.9	\$162.2	\$219.9	\$177.7
75–89.9	\$411.6	\$594.0	\$546.3
90–100	\$2,294	\$3,631	\$3,962

The Future of Obama-care?

US Population Insurance Status

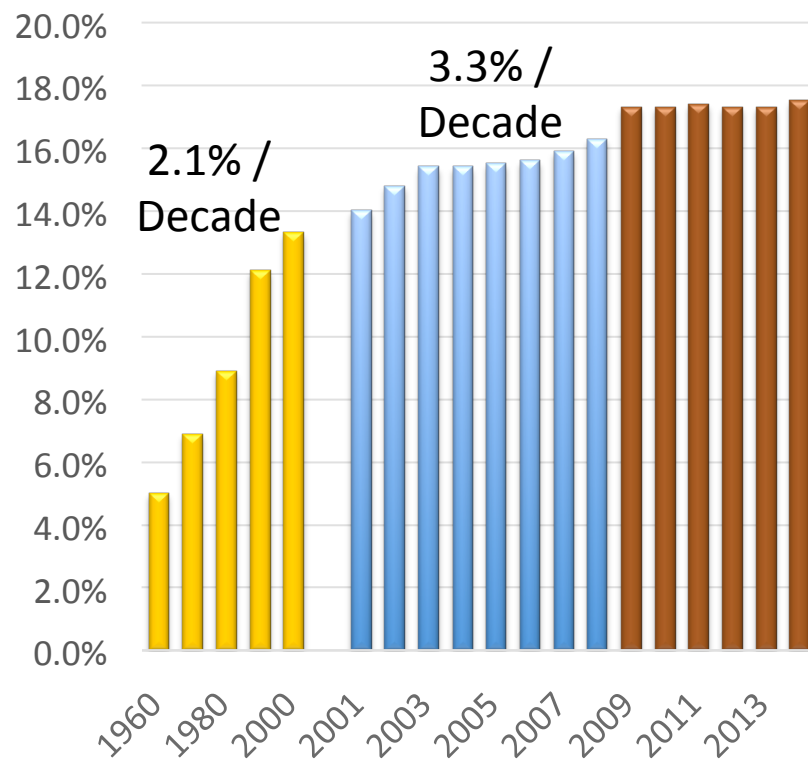
		2015	09-15 Change
65+	Public	44,731	7,913
	Private	1,314	558
	Uninsured	392	34
Total	Public	117,107	21,831
	Private	169,586	9,055
	Uninsured	29,758	-15,907

Employment by Sector



The Healthcare Crisis

National Health Spending % GDP



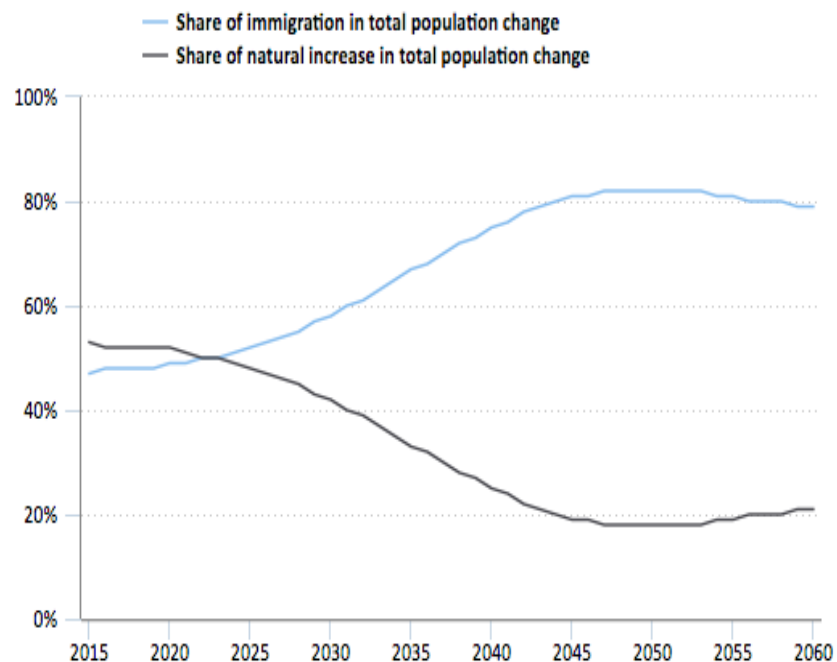
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**Per Capita Healthcare Spending
2015, PPP Adjusted**

USA	\$9,402	France	\$5,428
Norway	\$7,832	Canada	\$5,421
Switzerland	\$7,300	Belgium	\$5,340
Sweden	\$6,285	Australia	\$4,873
Netherlands	\$6,209	Finland	\$4,467
Germany	\$6,204	Japan	\$4,255
Austria	\$6,143	UK	\$3,717

Immigration / Social Insurance

Projected share of natural increase of population and immigration in total population change



Population Growth Projections

	2015	2015-2025		2025-2035	
Total	321,369	25,966	8.1%	23,003	6.6%
<18 years	73,635	1,380	1.9%	2,431	3.2%
18 to 24	31,214	(478)	-1.5%	154	0.5%
25 to 44	84,657	8,772	10.4%	3,552	3.8%
45 to 64	84,032	(1,797)	-2.1%	3,553	4.3%
65 years+	47,830	18,090	37.8%	13,313	20.2%
85 years+	6,304	1,178	18.7%	4,427	59.2%

The Pension Problem

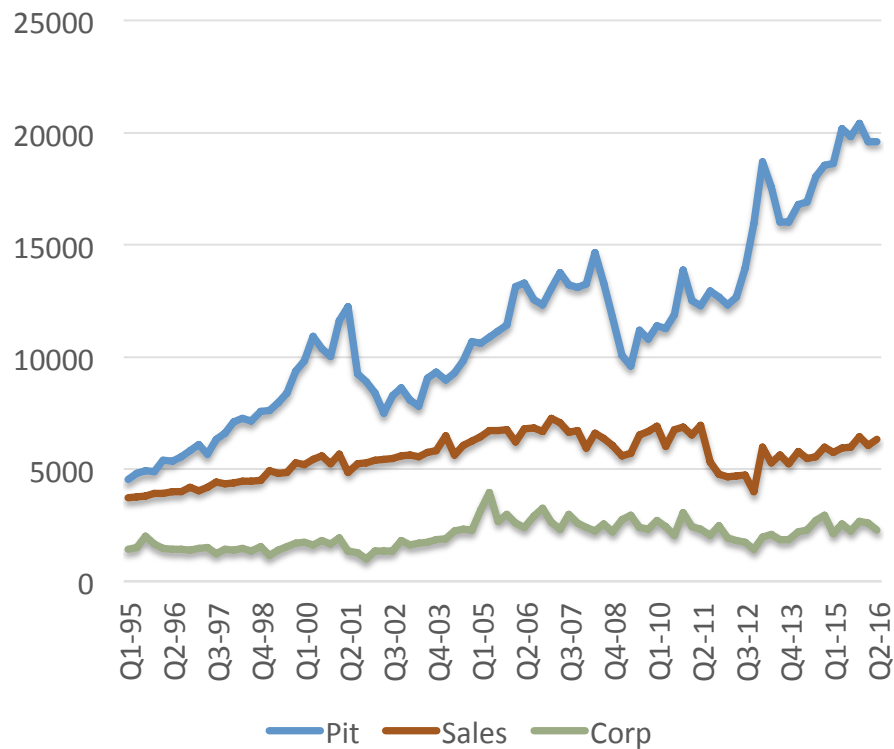
	SF	UF/PI		SF	UF/PI		SF	UF/PI
Alaska	52%	24.3%	Pennsylvania	62%	8.6%	Utah	80%	5.4%
Illinois	39%	16.6%	Michigan	60%	8.5%	Maine	80%	5.4%
Mississippi	58%	15.2%	West Virginia	67%	8.4%	Vermont	69%	5.4%
New Mexico	67%	15.0%	Kansas	60%	7.6%	Georgia	79%	4.9%
Kentucky	44%	14.7%	Montana	73%	7.5%	Iowa	81%	4.4%
Hawaii	60%	13.4%	Massachusetts	61%	7.5%	Florida	81%	3.9%
Nevada	69%	11.8%	Oklahoma	67%	7.1%	Idaho	85%	3.6%
Connecticut	48%	11.6%	Virginia	66%	7.0%	Texas	80%	3.1%
Colorado	61%	10.4%	New Hampshire	57%	6.9%	Nebraska	80%	2.7%
New Jersey	63%	10.4%	Maryland	65%	6.6%	Delaware	88%	2.6%
South Carolina	63%	10.2%	Arkansas	74%	6.3%	Washington	88%	2.6%
Louisiana	58%	10.0%	Wyoming	79%	6.3%	New York	89%	1.9%
Ohio	74%	10.0%	Minnesota	75%	6.3%	Oregon	96%	1.6%
California	72%	9.1%	Arizona	72%	6.2%	Tennessee	94%	1.0%
Rhode Island	58%	9.0%	Indiana	65%	6.0%	North Carolina	96%	0.9%
Alabama	66%	8.6%	North Dakota	61%	5.9%	Wisconsin	100%	0.0%
			Missouri	77%	5.6%	South Dakota	100%	0.0%

SF: Share Funded

UF/PI: Underfunding as % Personal Income

Income tax driving the show

Major Sources State Revenues

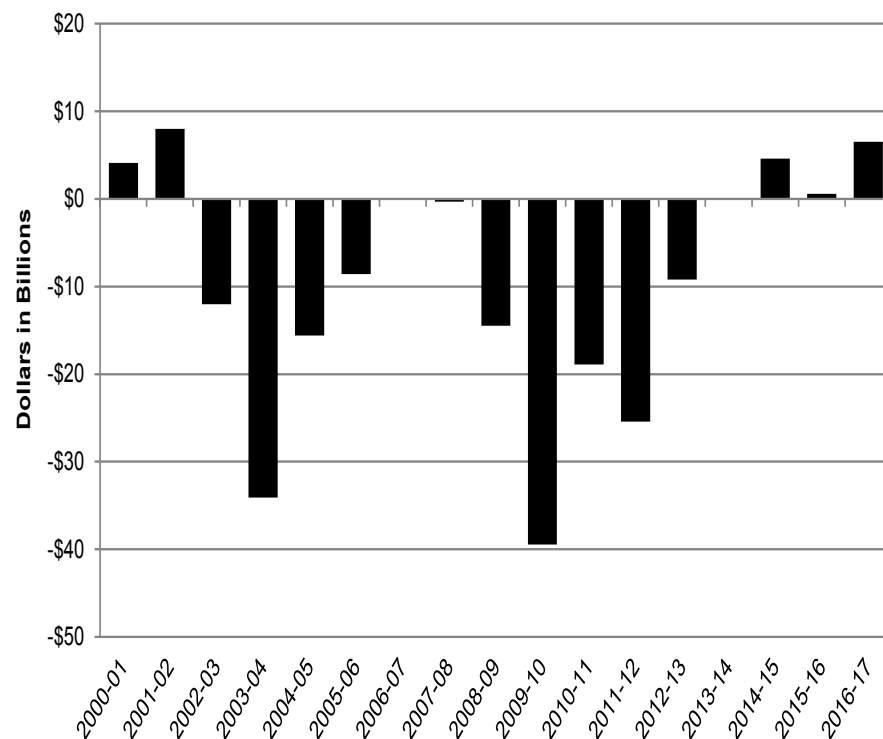


PIT Share General Fund

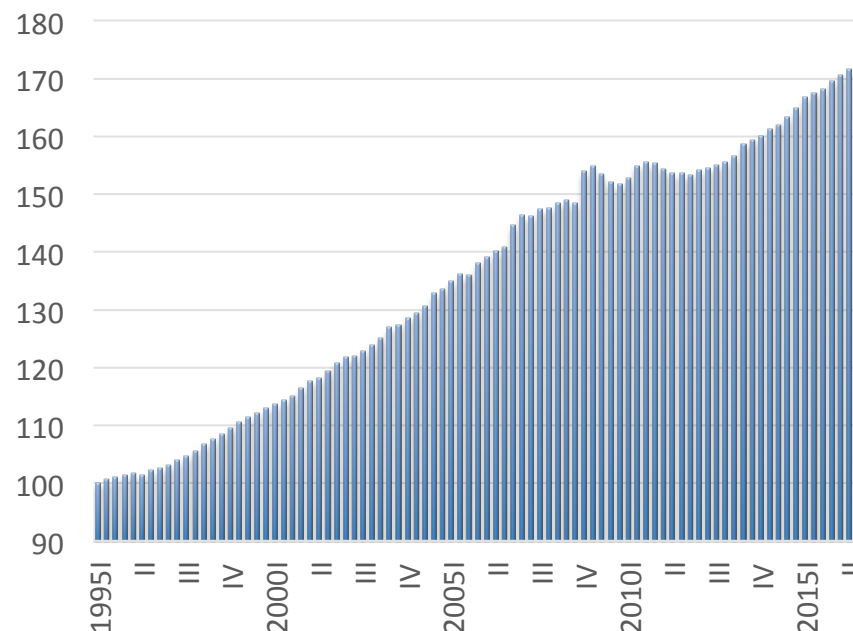


Setting up for a problem

Balanced Budgets Have Been Quickly
Followed by Huge Deficits¹



Price Government Services /
Consumer Goods



The Trump Factor

Positives

- *Something* will get done in Washington DC
- Infrastructure investment: stimulative if done right, help long run productivity
- Tax cuts: very modest bump in spending (if done right)
- Financial deregulation good for housing, banks
- More balanced access to Chinese market
- Americans hate Obamacare, but they tend to like the Affordable Care Act

Negatives

- Inexperience / infighting / conflict of interest issues
- Federal deficit likely to widen sharply
- Interest rates to rise
- Potential for major trade war
- Increase in wealth inequality
- Federal Reserve to cede control to Congress
- Backwards steps in immigration policies / skilled labor issues
- Backwards steps in environmental policies
- Revenge of the Left



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